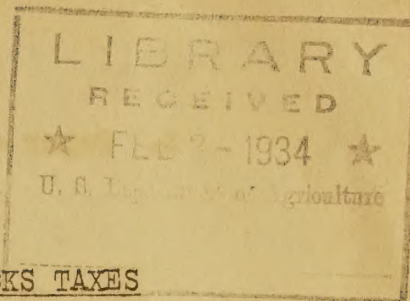


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MEMORANDUM IN RELATION TO PROCESSING AND FLOOR STOCKS TAXES

Processing taxes have been put into effect on the first domestic processing of wheat, cotton, tobacco, hogs and field corn, basic agricultural commodities, and on paper and jute, when manufactured into articles which come into competition with articles produced from cotton.

Rate of Processing Tax

The rate of the processing tax on each of the foregoing is as follows:

1. Wheat 30¢ per bushel of 60 pounds
2. Cotton 4.2¢ per pound
3. Tobacco -
 - Cigar-leaf 3¢ per pound, unsweated farm sales weight
 - Sweated, stem not removed . . 3.75¢ per pound
 - Sweated, stem removed 5¢ per pound
 - Maryland 1.7¢ per pound, farm sales weight
 - Stem not removed 1.8¢ per pound
 - Stem removed 2.4¢ per pound
 - Burley 2¢ per pound, farm sales weight
 - Stem not removed 2.3¢ per pound
 - Stem removed 3.1¢ per pound
 - Flue-cured 4.2¢ per pound, farm sales weight
 - Stem not removed 4.7¢ per pound
 - Stem removed 6.1¢ per pound
 - Fire-cured 2.9¢ per pound, farm sales weight
 - Stem not removed 3.2¢ per pound
 - Stem removed 4.1¢ per pound
 - Dark air-cured 3.3¢ per pound, farm sales weight
 - Stem not removed 3.8¢ per pound
 - Stem removed 5.1¢ per pound
4. Hogs 50¢ as of November 5, 1933
\$1.00 as of December 1, 1933
\$1.50 as of January 1, 1934
\$2.00 as of February 1, 1934
5. Field Corn 5¢ per bushel of 56 pounds

6. Paper -

- 2.04¢ per pound weight of paper, on the first domestic processing of paper into multi-wall paper bags
- 3.36¢ per pound weight of paper, on the first domestic processing of coated paper into coated paper bags
- 2.14¢ per pound weight of open-mesh paper fabric, on the first domestic processing of open-mesh paper fabric into open-mesh paper bags
- 0.715¢ per pound weight of paper, on the first domestic processing of paper into paper towels
- 4.06¢ per pound weight of paper, on the first domestic processing of paper into gummed paper tape.

7. Jute -

- 2.9¢ per pound of jute fabric, on the first domestic processing of jute fabric into bags
- 2.9¢ per pound of jute yarn, on the first domestic processing of jute yarn into twine of a length two hundred seventy-five feet per pound, or over, finished weight of twine.

The foregoing rates may be adjusted at such intervals as the Secretary finds necessary to effectuate the declared policy of the Act, in accordance with the provisions of Section 9, Subsections (a) and (b), of the Agricultural Adjustment Act.

First Domestic Processing

First domestic processing of each commodity, except wheat, is defined in the regulations respectively applicable and is in accord with the provisions of Section 9(d) of the Act and the subdivisions thereof. The definition of this term, with respect to wheat, is found in Section 9(d) (1) of the Act. The pertinent definitions are, as follows:

- 1. Wheat - "'Processing' means the milling or other processing (except cleaning and drying) of wheat * * * for market, including custom milling for toll, as well as commercial milling, but shall not include the grinding or cracking thereof not in the form of flour for feed purposes only."
- 2. Cotton - "FIRST DOMESTIC PROCESSING - First domestic processing -
(a) With respect to cotton that is to be spun, in every state of manufacture or processing up to the removal of the bobbin or cop from the spinning machine on which its yarn has been spun;
(b) With respect to cotton that is not to be spun, is that amount and degree of manufacture or processing up to the point where the cotton is fashioned into an article, either to be packaged and sold as such, or to be used for further manufacturing into a different type of article."
- 3. Tobacco - "FIRST DOMESTIC PROCESSING - The first domestic processing of cigar-leaf tobacco is the fabricating of the product to be used by the consumer. The actsof stemming, sweating or fermenting and conditioning shall not be deemed processing."

(a) In the case of cigars, stogies, cheroots or small cigars, it is the fabricating of cigar-leaf tobacco into the form to which no tobacco is added and from which no tobacco is subtracted; all scrap, cuttings and clippings not left in such products shall be deemed not to have been processed.

(b) In the case of scrap chewing and/or smoking tobacco, it is the preparing of any form of cigar-leaf tobacco for consumption as scrap chewing and/or smoking tobacco."

"FIRST DOMESTIC PROCESSING: The first domestic processing of Maryland, Burley, flue-cured, fire-cured, or dark air-cured tobacco is the fabricating of the product to be used by the consumer. In the case of cigarettes, smoking tobacco, chewing tobacco, and snuff, it is the fabricating of any one or more of the above kinds of tobacco into the articles to be consumed"

4. Hogs - "FIRST DOMESTIC PROCESSING - The first domestic processing is the slaughtering of hogs for market."
5. Field Corn - "FIRST DOMESTIC PROCESSING - The first domestic processing of field corn is the milling or other processing of field corn for market (except cleaning and drying), including cutting, grinding, cracking, breaking, by mechanical or other means, and custom milling for toll as well as commercial milling, but does not include cutting, grinding, cracking or breaking, not in the form of flour, for feed purposes only."
6. Paper - "FIRST DOMESTIC PROCESSING - The first domestic processing of paper is
 - (a) the manufacture or fabrication of paper into multi-wall paper bags, or paper towels, or gummed paper tape; or
 - (b) the manufacture of coated paper into coated paper bags; or
 - (c) the manufacture of open-mesh paper fabric into open-mesh paper bags."
7. Jute - "FIRST DOMESTIC PROCESSING:
 - (a) The first domestic processing of jute fabric is the manufacture of jute fabric into bags.
 - (b) The first domestic processing of jute yarn is the manufacture or preparation in any form of said yarn into twine, and includes the twisting, or polishing, or sizing, or the putting up of said yarn into balls, cones, tubes, reels, skeins or other forms of put-ups of twine, or any other preparation for market of said yarn as twine."

Floor Stocks Taxes

The floor stocks tax becomes effective at the same moment as the processing tax for the particular commodity goes into effect. It is based upon the rate of the processing tax then in effect. The conversion factors contained in the Regulations, insofar as the floor stocks tax is concerned, are for the purpose of having a tax paid on an article held for sale or other disposition, made from a

commodity which has been subjected to a processing tax, equivalent in amount to the tax which would have been paid in the production of the article, had the article been manufactured from the said commodity after the effective date of the processing tax. The floor stocks tax is paid only once, and any subsequent adjustment of the rate of tax, either up or down, has no effect on floor stocks then held. For instance, in the case of hogs, on January 1, 1934, there will be no liability for the payment of a floor stock tax, on account of floor stocks of pork products, in addition to the tax due on account of floor stocks held on November 5, 1933, the effective date of the processing tax on hogs.

Liability for Processing Tax

Every person, including the farmer who produced the commodity subject to the processing tax, who processes a commodity, subject to a processing tax, for market, is required to pay the processing tax upon the first domestic processing of that commodity for market.

No tax is required to be paid on the processing of a commodity by or for the producer thereof, for consumption by his own family, employees or household, regardless of who does the processing.

In the case of field corn, an exemption has been granted in the case of the grinding of corn by or for a producer who, together with his family, employees or household, grinds or has ground less than one bushel of corn per week. In that case, it is not required that the producer prove the corn was ground for consumption by his own family, employees or household, and the miller is not required to procure from him an affidavit or a statement witnessed by two persons to that effect. It is sufficient for the miller to file an affidavit monthly to the effect that he has not milled more than one bushel in any one week for a producer and his family, employees, or household, without securing the affidavit or witnessed statement otherwise required by the Bureau of Internal Revenue. The miller is required to ascertain by inquiry of the person delivering the field corn whether or not other millers are grinding corn for him. The corn ground for feed purposes only and for consumption by the producer, his family, employees or household must be taken into account in determining whether or not more than one bushel per week has been ground. If the grinding exceeds one bushel, or the producer is having corn ground by more than one miller, then the affidavit or witnessed statement required by the Bureau of Internal Revenue must be procured by the miller.

Where a producer slaughters a hog partly for consumption by himself, his family, employees or household and partly for sale, he is required to keep a record of the live weight thereof and of the parts which he keeps for consumption by himself, his family, employees or household and to pay a tax on the remainder. The weight of the parts sold are restored to a live weight basis by using the conversion factors prescribed in Hog Regulations, Series 1. For example, if a farmer should sell only two smoked, regular hams, weighing 20 pounds each, from a hog slaughtered between December 1 and December 31, 1933, he would pay a tax computed as follows: The tax per hundred pounds, live weight, is \$1; the rate of tax, multiplied by 206%, times the weight of the hams, will give the amount of tax on the two smoked hams equivalent to the amount of tax which would have been paid, had the processing tax been computed on the whole hog on a live weight basis. The tax would thus be 82¢ for the 40 pounds of regular, smoked hams.

Where a person, not a producer, buys a live hog and has the hog slaughtered, for consumption by his family and not for sale, no liability for the processing tax attaches. However, if he sells any part of the pork products, he must pay the processing tax on the entire hog, live weight, as no exemption has been granted in the case of a person who is not a producer.

The same rules apply whether the products of the commodity subject to the processing tax are sold or exchanged.

Liability for Floor Stocks Tax

Every person who holds, for sale or other disposition, the products of a commodity subject to the processing tax on the effective date thereof is required to pay the floor stocks tax thereon. The sole exception is with respect to retail stocks, held by a retailer and sold during the thirty days immediately following the effective date of the processing tax. No floor stocks tax is required to be paid thereon; the tax is due and payable only with respect to the retail stocks held by the retailer on the effective date of the processing tax and not disposed of within thirty days thereafter.

Penalty

The penalty for willful failure to pay the processing tax is imprisonment for not more than ten years or a fine of not more than \$10,000, or both. The same penalty applies in the case of a storekeeper who accepts products of a commodity subject to the processing or floor stocks taxes to be sold by him, in exchange for other commodities or for cash, knowing the appropriate tax willfully has not, or will not, be paid.

Filing of Returns and Payment of the Tax

The returns are filed with the Collector of Internal Revenue, and the tax is paid to him.

(a) Processing tax:

The return is due and the tax is required to be paid with respect to processing taxes on or before the last day of the month immediately following the month during which the processing occurred. For example, the return for the month of November is required to be filed on or before December 31, 1933.

(b) Floor stocks tax:

- (1) In the case of wholesalers and retailers, except as to retail stocks of a person engaged in retail trade, the floor stocks tax return must be filed as ^{of} the effective date of the processing tax, within 30 days thereafter, and the tax is payable at that time without assessment.
- (2) With respect to the retail stocks of a person engaged in retail trade, the floor stocks tax return must be filed within 60 days after the effective date of the processing tax. The floor stocks tax is payable on the stocks held on the effective date

of the processing tax and not disposed of within 30 days thereafter. Only one inventory need be taken. The inventory is taken on the thirty-first day following the effective date of the processing tax. There are deducted therefrom the articles purchased during the month immediately preceding. The balance, if any, must necessarily be stock which was held on the effective date of the processing tax and which was not disposed of during the 30 days immediately following the effective date of the processing tax, and the floor stocks tax attaches thereon.

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